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FISCAL IMPACT STATEMENT

LS 6786

BILL NUMBER: HB 1480

NOTE PREPARED: Feb 26, 2007

BILL AMENDED: Feb 23, 2007

SUBJECT: Judges' Pensions.

FIRST AUTHOR: Rep. Kuzman

FIRST SPONSOR: Sen. Meeks

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:

- (1) allows a participant in the 1985 Judges' Retirement System to elect to make additional contributions after 22 years;
- (2) requires the Pension Management Oversight Commission (PMOC) to identify a way to harmonize the benefit structures of the 1977 and 1985 Judges Retirement Systems; and
- (3) allows service credit accrued by a full-time referee, full-time commissioner, or full-time magistrate after leaving an elected term on the bench to be granted to a participating judge in the 1977 Judges' Retirement System if certain conditions are met.
- (4) requires that the portion of the judicial salaries fee retained by cities and towns to be used to fund the operation of city and town courts.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (1) The impact of allowing a participant in the 1985 Judges' Retirement System to elect to make additional contributions after 22 years is unclear. If a judge terminates employment (other than by death or disability) prior to the completion of eight years of service, the judge is entitled to receipt of the total sum of all the employee contributions. But once a judge has earned eight years of service, the judge is no longer entitled to the receipt of any employee contributions. All employee contributions after the completion of eight years of service assist in the funding of the plan and are lost to the judge.

(2) Requiring the PMOC to identify a way to harmonize the benefit structures of the 1977 and 1985 Judges

Retirement Systems will have no fiscal impact.

(3) This provision allows service credit accrued by a full-time referee, full-time commissioner, or full-time magistrate after leaving an elected term on the bench to be granted to a participating judge in the 1977 Judges' Retirement System if certain conditions are met. Current statute only permits such service to be credited if the position was appointed prior to becoming a judge. The service may only be credited if (a) the service was credited under the Public Employees' Retirement Fund (PERF), (b) the state contributes an amount necessary to amortize the unfunded liability over a period not exceeding 10 years, and (c) the judge pays the 6% employee contributions that would have been payable during the prior service. Amounts under (b) and (c) may be offset by any money transfers from PERF representing the PERF accrued benefit and the annuity savings account (ASA) balance.

It is not known how many judges would be affected by this provision. For illustrative purposes, in the case of a judge who is age 62 with 19 years of service and has 3 years of PERF service because of an appointment after leaving an elected term on the bench, this provision would allow this judge to count three years of service under the 1977 Judges' Benefit System rather than under PERF. The fiscal impact to the state, after a transfer of the present value of the PERF accrued benefit, is estimated to be approximately \$25,900 for each judge. The 10-year amortization payment would be about \$3,500 at 7.25% interest for each affected judge.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *City or Town Court Share of Judicial Salaries Fee* – This provision will shift monies generated from Judicial Salary Fee from the general fund of cities or towns with city or town courts to the administrators of the city or town courts for operating these courts. The specific revenue that would be shifted is not known.

Under current law, cities and towns with city and town courts charge a Judicial Salaries Fee of \$16 for each civil, infraction, or misdemeanor case. Of this fee, 75% is deposited into the state General Fund while 25% remains with the city or town. Since current law indicates that the city or town fiscal officer shall retain 25% of the judicial salary fee as the city or town share, the State Board of Accounts has ruled that this revenue should be deposited into the city or town general fund. This bill specifies that the fee revenue should fund the operation of the city or town court.

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 and the 1985 Benefit Systems of the Judges' Retirement Fund.

Local Agencies Affected: Cities and towns.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the 1977 and the 1985 Benefit Systems of the Judges' Retirement Fund, 317-576-1508; *2005 Indiana Judicial Report*.

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DEFINITIONS

Actuarial Liability Sometimes called the unfunded liability, the actuarial liability of a retirement system at

any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Amortization Paying off an interest-bearing liability by gradual reduction through a series of installments as opposed to paying it off by one lump sum payment.

Annuity Savings Account This account contains member contributions, interest credited to the amounts invested in the Guaranteed Fund, and the gain or loss in market value on the amounts invested in the alternative funds. Each member's Annuity Savings Account is credited individually with the amount of the member's contributions and interest credits.

Present Value The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.